The notion that affordability would be enhanced by the decline in home prices is also incorrect upon closer examination. Home prices would decline so that the after-tax cost of owning a home under the new tax laws would equal the after-tax cost under current law. Thus, it will still cost about $880 per month for principal, interest and property taxes to own a home that currently costs $85,000 even though the price of that home falls to about $75,000 under Treasury I, for example. Thus, the ability of first-time buyers to purchase a home would not be improved.

Existing homeowners would find their ability to move up the housing ladder actually diminished by tax reform. A recent survey of homebuyers conducted by the NATIONAL ASSOCIATION OF REALTORS® revealed that on average the equity-value ratio of homes sold by repeat homebuyers was 45 percent. Further, it was found that on average homebuyers who trade up to a more expensive property purchase a home costing about 47 percent more than the home they sell. Table 6 uses this information to compare the position of a repeat buyer before and after enactment of Treasury I. Under current law, the owner of a home currently valued at $85,000 would have about $38,000 of equity to use toward the purchase of a $125,000 home. This homebuyer would require a mortgage loan of $87,000, resulting in before-tax interest and property taxes of $13,810. With tax savings of $3,434 the after-tax cost is $10,376.

If Treasury I were enacted and interest rates remained constant, the value of the current home would fall about 12 percent to $75,000, causing equity to decline by 26 percent. The home this repeat buyer is likely to buy would fall about 14 percent to $107,600. With $28,000 in equity the repeat buyer would now require a mortgage loan of $79,600, 9 percent less than under current law. However, with a lower marginal tax rate, larger ZBA, and property taxes no longer deductible, the after-tax cost of owning the same property would be 5 percent higher. Note that even if mortgage rates were to decline by one percentage point, the after-tax cost would still be increase by 2 percent due to Treasury I.

Commercial Real Estate

Table 7 presents a side-by-side comparison of the provisions of current tax law which effect the yield on investments in commercial real estate with their status under the three main tax reform proposals. Table 8 presents estimates of the impact of each of the proposals on a typical commercial property.

Compared to Treasury I, Bradley-Gephardt and Kemp-Kasten make relatively few changes to current law and would have relatively modest impacts on a typical commercial investment. The primary changes introduced by Bradley-Gephardt are to reduce the maximum marginal tax rate for both personal and corporate taxpayers to 30 percent, adopt a 40 year depreciation period for structures while accelerating the depreciation method to 250 percent declining balance, and eliminate the 60 percent capital gains exclusion without indexing asset basis for inflation. Assuming interest rates remain unchanged, Bradley-Gephardt would cause the first-year taxable income of a typical commercial real estate investment to rise by 21 percent, the first-year after-tax cash flow to decline 57 percent, the 10-year internal rate of return (IRR) to decline 25 percent, and the 10-year net present value (NPV) to decline 52 percent. With the reduction in yield it is estimated that the annual rate of investment in commercial real estate would decline by 12 percent, which in the long-run would cause commercial rents to rise by 10 percent, at which point the yield on this type of property would be restored to levels experienced under current law. If mortgage rates fell by one percentage point the 10-year IRR would decline by 17 percent while in the long-run rents would rise by 7 percent.

TABLE 6

IMPACT OF TREASURY I ON A REPEAT HOMEBUYER

	Home Owned			Home to Buy (Mortgage Rates Unchanged)			Home to Buy (Mortgages Rates Decline By One Percentage Point)		
	Current Law	Treasury I	Difference	Current Law	Treasury I	Difference	Current Law	Treasury I	Difference
Value	$85,000	$ 75,000	-12%	$125,000	$107,600	-14%	$125,000	$114,600	- 8%
Equity	38,000	28,000	-26%	38,000	28,000	-26%	38,000	32,900	-13%
Loan	47,000	47,000	---	87,000	79,600	- 9%	87,000	81,700	- 6%
Interest 1/	---	---		11,310	10,348	- 9%	11,310	9,804	-13%
Property Tax 2/	---	---		2,500	2,152	-14%	2,500	2,292	- 8%
Before-tax Cost	---	---		13,810	12,500	- 9%	13,810	12,096	-12%
Marginal Tax Rate 3/	---	---		34%	25%	--	34%	25%	---
Tax Savings	---	---		3,434	1,637	-52%	3,434	1,501	-56%
After-tax Cost	---	---		$ 10,376	$10,863	5%	$ 10,376	$ 10,595	2%

SOURCE: NATIONAL ASSOCIATION OF REALTORS

1/ Based on a 13 percent interest rate.

2/ Two percent of property value.

3/ Based on a required income of $46,200, joint return with four exemptions.

Kemp-Kasten would reduce the maximum personal marginal tax rate to 24 percent while the maximum corporate marginal tax rate would be reduced to 35 percent. The depreciation period would be lengthened to 25 years but 6 percent of the original basis could be deducted in each of those 25 years. Furthermore, that 6 percent of original basis would be indexed for inflation. The Kemp-Kasten depreciation system is more favorable than current law and, in a present value sense, approximates first-year expensing of original basis. In regard to captial gains, Kemp-Kasten would provide the taxpayer with the option of a 40 percent exclusion or no exclusion but the asset value would be indexed for inflation so that tax is paid on only real or inflation-adjusted gain rather than nominal gain. These changes would reduce the 10-year IRR by about nine percent and boost rents in the long-run by about four percent. If mortgage interest rates fell by one percentage point, the 10-year IRR would decline by just two percent with rents rising just one percent in the long-run.

Treasury I would make changes similar to Kemp-Kasten but would in addition introduce several novel proposals detrimental to real estate. Treasury I would reduce the maximum marginal personal tax rate to 35 percent and the maximum marginal corporate rate to 33 percent. Depreciation of structures would be limited to 3 percent of the adjusted basis where this adjusted basis is indexed for inflation. The current capital gains exclusion would be repealed. Capital gains would be taxed as ordinary income, but the basis for computing capital gains would be indexed for inflation. In addition, Treasury I would introduce the indexing of interest indebtedness for inflation, where at positive rates of inflation a fraction of interest expense would be nondeductible and an equal fraction of interest income would not be taxed. At 5 percent inflation, the rate assumed in Table 8, 45 percent of interest expense would be nondeductible. Treasury I would also extend the "at risk" rule to real estate, whereby the losses from an investment which can be used to shelter other sources of income are limited to invested capital and recourse financing. Referring to Table 8, the net effect of these proposals, shown as Case A under Treasury I, would be to turn first-year taxable income from negative to positive, turn first year after-tax cash flow from positive to negative, reduce the 10-year IRR by 39 percent, and cause rents to rise by 20 percent in the long-run. Under Case A this investment is operated as the investor's trade or business, so that the investor is regarded as being active in the management of the investment. Under Case B the investor is passive, such as a limited partner, so that the investor's share of the interest expense of the property falls under the limits of other personal interest deductibility. 5/ In this case virtually all interest expense is nondeductible, further reducing the yield on this type of investment. A one percentage point decline in mortgage interest rates makes only marginal improvements. Another proposal of Treasury I with same intention is the taxing of all partnerships with more than 35 partners as corporations, eliminating the passing thru of losses to the individual partners.

Finally, all three proposals would make other changes relevant to commercial real estate the effects of which are not presented in Table 8. These changes include the repeal of the investment tax credit, repeal of rehabilitation tax credits, repeal of Section 167K rules which allow rapid depreciation of rehabilitation expenses for low-income rental properties, and repeal of the tax exempt status of mortgage revenue bonds and industrial development bonds.

TABLE 7

COMPARISON OF TAX PROVISIONS IMPACTING COMMERCIAL REAL ESTATE UNDER ALTERNATIVE TAX REFORM PROPOSALS

	1986 Current Law	Bradley-Gephardt	Kemp-Kasten	Treasury I
Personal Marginal Tax Rates	14 rate brackets from 11% to 50%	3 rate brackets 14%, 26%, 30%	1 rate bracket 24%	3 rate brackets 15%, 25%, 35%
Personal Deductions				
Personal Interest other than mortgage interest.	Yes	Limited to passive investment income. 1/	No, except on education expenses.	Limited to $5,000, plus passive investment income. Amount above $5,000 indexed for inflation. 2/
Corporate Tax Rates	15 to 40 percent on first $100,000, 46 percent above $100,000.	30% flate rate	15% on first $50,000, 25% on next $50,000, 35% above $100,000.	33% flate rate
Depreciation	18 year life; 175% declining balance.	40 year life; 250% declining balance. 3/	25 year life; 6% of original basis per year, indexed for inflation.	3% of indexed, inflation adjusted basis. 63 year closeout.
Capital Gains				
Exclusion	60%	0	Taxpayer option; 40% exclusion or indexed basis	0
Basis indexed for inflation	No	No		Yes
Construction Period Interest And Taxes	10 year amortization allowed.	Unchanged	Unchanged	Repealed. Uniform capitalization rules would apply.
Interest Expense	Fully deductible	Fully deductible	Fully deductible	Indexed; partially nondeductible at positive inflation rates.
Investment Tax Credit	6% - 10%	Repealed	Repealed	Repealed

TABLE 7 (continued)

	1986 Current Law	Bradley-Gephardt	Kemp-Kasten	Treasury I
Rehabilitation Tax Credits	15% credit for 30 year old nonresidential structures; 20% credit for 40 year old nonresidential structures; 25% credit for historic residential and nonresidential structures.	Repealed	Repealed	Repealed
Section 167K Rules	Rehabilitation expenses for low income housing can be depreciated over 60 months.	Repealed	Repealed	Repealed
Installment Sales	Taxation deferred until payment received.	Unchanged	Unchanged	No deferral if receivables pledged as collateral.
"At Risk" Rules	Real estate exempt. Deductions may exceed the amount of equity plus recource financing.	Unchanged	Unchanged	"At risk" rule extended to real estate. Deductions limited to equity plus recourse financing.
Partnerships	"Pass-thru" of gains and losses to individual partners.	Unchanged	Unchanged	Partnerships with more than 35 members taxes as a corporation.
Mortgage Revenue Bonds	Interest is Tax Exempt	Interest Taxed	Interest Taxed	Interest Taxed
Industrial Development Bonds	Interest is Tax Exempt	Interest Taxed	Interest Taxed	Interest Taxed

Source: NATIONAL ASSOCIATION OF REALTORS®

1/ Under Bradley-Gephardt all personal deductions are deductible at the 14 percent marginal rate only.

2/ Under Treasury I mortgage interest on a secondary residence is included in this category.

3/ It is not known whether Bradley-Gephardt would allow component depreciation of a structure as was permitted prior to the Economic Recovery Tax Act of 1981.

TABLE 8

IMPACT OF TAX REFORM PROPOSALS ON A TYPICAL COMMERICAL REAL ESTATE INVESTMENT [1]
(PERCENT CHANGE FROM CURRENT LAW)

Case 1: Interest rates unchanged.

	1st Year Taxable Income	1st Year After-Tax Cash Flow	10-Year IRR [2]	10-Year NPV [3]	Long-Term Rents [4]	Impact on Investment
Treasury I						
A [5]	+118%	-122%	-39%	- 82%	+20%	-18%
B [6]	+187%	-174%	-62%	-147%	+32%	-29%
Bradley-Gephardt						
	+ 21%	- 57%	-25%	- 52%	+10%	-12%
Kemp-Kasten						
	+ 53%	- 83%	- 9%	- 1%	+ 4%	- 4%

Case 2: Interest rates fall by 1 percentage point upon adoption of the proposals.

Treasury I						
A [5]	+123%	-107%	-32%	- 62%	+16	-15%
B [6]	+187%	-155%	-53%	-121%	+27	-25%
Bradley-Gephardt						
	+ 30%	- 44%	-17%	- 34%	+ 7	- 8%
Kemp-Kasten						
	+ 62%	- 69%	- 2%	+ 18%	+ 1%	- 1%

Source: NATIONAL ASSOCIATION OF REALTORS®

TABLE 8 (continued)

1/ Assumptions underlying typical commercial real estate investment.

Basis: $1,000,000 project acquired 1/1/86 with original basis allocated $150,000 to land, $50,000 to furniture, fixtures & equipment, and $800,000 to real property.

Financing: $250,000 initial equity and 30-year conventional mortgage for $750,000 at 13.5% interest.

Income and Expenses: Net operating income of $100,000 increasing at 5% per year.

Projected Value: Starting Value of $1,000,000 increasing at 5% per year.

Expenses of Sale: Selling expenses of 6% upon ultimate sale.

Ownership: Individual taxpayer(s) in a marginal tax bracket of 50% under current law.

2/ Internal Rate of Return: the discount rate at which the present value of all future after-tax benefits equal the initial capital contribution.

3/ Net Present Value: The sum of all future after-tax benefits less initial capital contribution, discounted to 1/1/86 at 11% per annum.

4/ Long-Term Rent: The percentage amount that rents would have to change by, all else being equal, for 10-year IRR to be restored to the level under current law.

5/ Property used in a trade or business; all interest deductible subject to the indexing of indebtedness for inflation.

6/ Property held by a passive investor; interest deductions limited to $5,000.

Note: For purposes of indexing capital assets, adjusted basis, and interest indebtedness a 5 percent inflation rate was assumed.

Impact of Tax Reform on Interest Rates

If the United States were a closed economy so that there were no trade or capital flows with the rest of the world, it could be predicted with a high degree of certainty that the three tax reform proposals under discussion would cause market interest rates to fall from one to three percentage points. 6/ However, the economic interdependence between the United States and the rest of the world is now very advanced and complex. For example, foreign investors now supply about 20 percent of the total supply of loanable funds in this country and are financing about 50 percent of the federal deficit.

The best available evidence suggests that this inflow of foreign funds is very responsive to the spread between U.S. interest rates and those available in other countries. If U.S. interest rates should decline due to lower marginal tax rates while the interest rates in other countries remained unchanged, the inflow of foreign funds into the U.S. would decline sharply, putting upward pressure on domestic interest rates. NAR was a co-sponsor of a study by Data Resources, Inc. (DRI), a major economic consulting firm, which examined this and other dynamic impacts of tax reform. The results of the DRI study suggest that due to the sharp reduction in inflow of foreign funds, interest rates would decline at most one percentage point under Treasury I and substantially less than that under Bradley-Gephardt and Kemp-Kasten.

Outlook for Treasury II

In the next few weeks the Treasury Department is expected to release the second version of it's tax reform proposal which is likely to be the Administration's proposal which is sent to Capitol Hill. Table 9 presents the best guess of the real estate related provisions likely to be included in Treasury II. Given the pro-capital formation posture of the current Treasury Secretary, we are likely to see several changes that will make the proposals more favorable toward savings, investment, and homeownership than Treasury I. However, the real test will be how it compares to current law with respect to those criteria.

TABLE 9

STATUS OF REAL ESTATE RELATED PROVISIONS
IN TREASURY TAX REFORM PROPOSAL
(BEST GUESS AS OF MAY 1, 1985)

Commerical, Industrial and Rental Residential	Current Law	Treasury I	Treasury II
Depreciation period	18 years	63 years	20-25 years
Rehabilitation tax credits	Yes	No	No
Capital Gains tax treatment	60% exclusion	No exclusion; asset indexed for inflation	60% exclusion for venture capital; Treasury I treatment for real estate.
Indexing of interest indebtedness	No	Yes	No
Tax partnerships with more than 35 partners as corporations	No	Yes	Limit raised, perhaps 100.
Extend "at risk" rules to real estate	No	Yes	Yes
Limit all non-principal residence interest deductibility to $5,000 plus net investment income, indexing the amount above $5,000 for inflation	No	Yes	Yes, but apply only to non-residences
Mortgage Revenue Bonds	Tax exempt, limits on volume	Taxed	Tax exempt, stricter limits on income
Industrial Revenue Bonds	Tax exempt, limits on volume	Taxed	Tax exempt, stricter limits on purpose and volume
Homeownership			
Property Tax Deductibility	Yes	No	No
Mortgage Interest Deductibility			
Primary residence	Unlimited	Unlimited	Unlimited
Secondary residence	Unlimited	Limited	Unlimited

Footnotes

1/ In this report the term commercial real estate refers to all depreciable real property, such as office, retail, industrial, and rental residential real estate. It does not include the special case of low-income rental residential properties.

2/ Under Kemp-Kasten, the marginal rate for determining the value of itemized deductions is 24 percent for all taxpayers. However, due to the mechanics of the 20 percent exclusion of employment income, the marginal tax rate on additional employment income is 19.2 percent up to the maximum taxable Social Security income, 28.8 percent on employment income between the Social Security maximum and two times the Social Security maximum, then falling back to 24 percent above two times the maximum Social Security income.

3/ These impact estimates pertain to a current buyer of such a property since it is the after-tax cost of a buyer that determines value.

4/ Before- and after-tax costs of homeownership and the change in home values are computed as follows:

a) First year mortgage interest equals the home value (V) times the loan-to-value ratio (LV) times the mortgage interest rate (r).

b) Property taxes are equal to V times the property tax rate (p).

c) Total before-tax cost (BTC) equals;

$$BTC = V(LV)(r) + V(p) = V(LV*r + p)$$

d) Tax savings (TS) equals the marginal tax rate (t) times all deductible expenses less the zero bracket amount (ZBA). Under current law, Bradley-Gephardt, and Kemp-Kasten;

$$TS = t[BTC - ZBA].$$

Under Treasury, since property taxes are not deductible;

$$TS = t[V(LV)(r) - ZBA].$$

e) After-tax cost (ATC) equals;

$$ATC = BTC - TS$$

f) To compute the change in home value, it is assumed that ATC remains constant across all tax regimes. Therefore, after computing ATC under current law, ATC is held constant, new values are used for t and ZBA, and then the expression is solved for V.

$$V = \frac{ATC - t^* ZBA}{(LV^*r + p) - t(LV^*r + p)}$$

Footnotes (Continue)

In the case of Treasury I the expression is:

$$V = \frac{ATC - t^* ZBA}{(LV^*r + p) - t(LV^*r)}$$

5/ The Treasury I proposal introduces a radically different tax treatment of partnerships, where the individual gross incomes and expenses of the partnership are passed thru to the partners rather than just the net income of the partnership.

6/ The real after-tax rate of interest (RATr) is computed as follows:

$$r(1-t) - i = RATr$$

Where r is the nominal rate of interest, t is the marginal tax rate, and i is the expected inflation rate. If we assume that under current law r = 13, t = .32, and i = 5, then RATr = 3.84 (13(1 - .32) - 5 = 3.84). The 32 percent marginal tax rate is the average for those taxpayers reporting interest income on their tax returns. If RATr and i are held constant and t is replaced with the comparable marginal personal tax rate under each of the tax reform proposals, r can then be solved for.

$$r = \frac{RATr + i}{1-t}$$

	Current Law	Bradley-Gephardt	Kemp-Kasten	Treasury I
Marginal Tax Rate	.32	.23	.22	.24
r	13	11.5	11.3	11.6

The Treasury I proposal would result in further reductions in interest rates since the interest indexing provision would result in only real interest income being taxed. In the case of Treasury I, the following formula for determing r would apply:

$$r = \frac{RATr}{1 - t} + i$$

Using this formula, r would decline to 10.1 percent.

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,820	3,864	3,907	3,958	4,014	4,071	4,131	4,200	3,305	3,663	3,887	4,104	4,400
Percent Change	6.7	4.7	4.5	5.4	5.7	5.8	6.0	6.9	7.7	10.8	6.1	5.6	7.2
Percent Change (without inflation)	1.3	1.9	1.9	2.0	2.3	2.5	2.7	2.9	3.7	6.8	2.5	2.3	3.5
Consumption	4.7	3.2	2.0	2.3	2.5	2.5	2.7	2.8	4.8	5.3	3.4	2.5	3.2
Durables	6.9	4.4	1.5	2.1	2.0	2.1	3.2	3.7	12.1	13.1	5.6	2.4	4.8
Nondurables	4.2	3.2	2.3	2.2	2.6	2.4	2.2	2.4	3.7	4.6	2.4	2.4	2.7
Services	4.4	2.7	1.9	2.3	2.7	2.7	2.8	2.8	3.4	3.2	3.4	2.6	2.9
Residential Investment	-0.7	6.4	16.5	-3.9	-1.8	-0.6	-0.9	-0.2	41.7	12.2	1.1	0.8	0.4
Nonresidential Investment	3.4	5.1	3.8	4.3	3.7	3.4	4.3	5.5	2.5	19.8	7.0	4.0	6.6
Structures	16.2	6.0	1.3	0.8	0.6	0.3	1.9	4.1	-7.8	15.6	9.9	1.4	4.3
Equipment	-1.2	4.7	4.8	5.7	4.9	4.6	5.2	6.1	7.3	21.5	5.9	5.1	7.5
Exports	-8.2	4.9	4.5	6.8	6.9	7.9	8.1	8.1	-5.6	4.7	0.5	6.9	7.6
Imports	26.2	0.4	9.0	8.6	7.3	5.3	3.9	4.1	7.6	27.0	7.4	6.3	5.0
Government Purchases	0.1	5.1	2.9	2.1	8.0	1.2	1.4	1.8	-0.3	3.5	4.3	3.6	0.9
Consumption (% of GNP)	65.2	65.4	65.4	65.5	65.5	65.5	65.5	65.5	65.8	64.8	65.4	65.5	65.3
Residential Investment (% of GNP)	3.5	3.6	3.7	3.6	3.6	3.6	3.6	3.5	3.5	3.7	3.6	3.6	3.5
Nonresidential Investment (% of GNP)	12.9	13.0	13.1	13.2	13.2	13.2	13.3	13.4	11.1	12.5	13.1	13.3	13.7
Structures (% of GNP)	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.2	3.5	3.7	3.7	3.7
Equipment (% of GNP)	9.2	9.3	9.4	9.4	9.5	9.6	9.6	9.7	7.9	9.0	9.3	9.6	10.0
Inventory Change ($ billions)	46.6	26.5	21.4	21.5	10.2	11.0	9.3	6.6	-13.5	58.2	29.0	9.3	17.0
Mfg. Capacity Utilization Rate (%)	81	81	81	81	81	81	81	81	75	82	81	81	82
Auto Sales (millions of units)	10.8	10.6	10.7	10.7	10.4	10.3	10.5	10.5	9.2	10.4	10.7	10.4	10.8
Domestic (% of total)	78.0	76.9	73.4	72.2	73.0	72.5	69.8	68.0	74.0	76.5	75.1	70.9	68.1
Manufacturing Industrial Production (% change)	0.8	2.2	3.1	2.1	4.2	3.9	2.3	2.6	7.8	11.2	2.2	3.2	4.4
Common Market	1.6	2.0	2.8	2.1	1.4	3.2	1.4	2.6	0.9	3.2	2.2	2.1	1.5
Japan	0.7	2.0	4.0	5.6	11.6	3.0	0.7	1.8	3.5	11.0	4.8	5.2	1.0
Employment(millions)(civilian:household basis)	106.7	107.1	107.4	107.8	108.0	108.3	108.6	108.9	100.8	105.0	107.3	108.4	110.6
Percent Change	3.0	1.3	1.3	1.3	0.9	1.0	1.0	1.2	1.3	4.1	2.1	1.1	2.0
Unemployment Rate (%) (civilian)	7.3	7.5	7.6	7.7	7.8	7.9	8.0	8.0	9.6	7.5	7.5	7.9	7.8
Personal Income per Household (average)<1>	40,052	40,313	40,703	41,250	41,763	42,323	42,797	43,344	35,415	38,526	40,580	42,557	45,069
Percent Change -- Year Ago (w/o inflation)	3.5	2.0	1.4	1.2	1.0	1.6	1.7	1.5	1.5	5.4	2.0	1.5	2.1
Personal Taxes per Household (average)	7,741	7,370	7,705	7,821	7,925	8,050	8,155	8,284	6,478	6,956	7,659	8,104	8,599
Percent Change -- Year Ago (w/o inflation)	10.7	3.1	6.1	5.5	-0.6	5.9	2.5	2.4	-3.0	3.5	6.3	2.5	2.4
Percent of Personal Income	20.2	19.1	19.8	19.8	19.9	19.9	19.9	20.0	19.1	18.8	19.8	19.9	20.0
Disposable Income per Household (average)	32,311	32,998	32,998	33,429	33,838	34,273	34,641	35,060	28,938	31,571	32,920	34,453	36,471
Percent Change--Year Ago (w/o inflation)	2.0	1.9	0.6	0.5	1.6	0.8	1.6	1.4	2.5	5.7	1.2	1.3	2.1
Household Interest Payments (% of total)	10.4	10.5	10.9	10.9	10.8	10.8	10.8	10.3	9.8	10.4	10.7	10.7	9.6
Net Worth Per Household (average)	81,265	82,741	84,071	85,731	87,426	88,699	89,951	91,203	73,838	77,705	83,452	89,320	95,257
Percent Change--Year Ago (w/o inflation)	3.5	4.4	3.0	3.8	4.4	4.0	3.6	2.9	7.6	1.4	3.7	3.7	2.9
Consumer Price Inflation (CPI)	3.3	3.6	3.4	3.7	3.6	3.6	3.6	3.8	3.2	4.3	3.5	3.6	4.0
Gross National Product Inflation (GNP Deflator)	5.3	2.8	2.5	3.3	3.4	3.2	3.2	3.8	3.8	3.8	3.6	3.2	3.6
Personal Consumption Inflation	3.1	3.0	2.9	3.3	3.4	3.4	3.4	3.6	3.7	3.2	3.0	3.3	3.7
Residential Construction Inflation	5.1	2.5	3.2	3.1	3.6	3.7	3.6	3.7	1.7	3.9	3.8	3.4	4.0
Nonresidential Construction Inflation	1.2	1.6	2.7	3.3	3.5	3.5	3.5	3.7	-1.0	0.3	1.7	3.3	3.9
Producers Price Inflation (WPI)	-2.1	0.8	1.6	2.9	2.2	2.2	2.7	3.0	1.3	2.4	0.1	2.3	3.2
Compensation per Manhour (% change)	4.8	4.5	4.2	4.7	5.0	4.1	4.2	4.6	4.8	4.2	4.2	4.5	4.9
Productivity (% change)	-0.7	1.9	1.5	1.4	1.1	1.1	1.4	1.7	3.4	2.8	1.1	1.3	1.8
Unit Labor Cost (% change)	5.6	2.6	2.7	3.3	3.8	3.0	2.8	2.8	1.3	1.4	3.1	3.1	3.0
Unit Capital Cost (% change)	4.1	3.9	3.6	3.2	2.9	2.6	2.4	2.1	6.9	4.6	3.7	2.5	1.8
Before Tax Corporate Profits ($ billions)<2>	230	221	218	218	219	222	226	227	213	243	222	224	251
Corporate Tax Liability	91	84	82	81	84	85	86	87	86	98	84	85	98
After Tax Profits	139	137	137	137	136	137	140	141	127	146	137	138	153
Inventory Valuation Adjustment	-1	-2	-8	-12	-13	-12	-13	-15	-11	-6	-6	-13	-18
Capital Consumption Adjustment	71	77	82	86	90	93	95	97	33	56	79	94	92
Profits from Current Production (with IVA, CCA)	210	212	211	212	213	219	222	224	149	196	211	219	227
Adjusted for Inflation (84:3 base)	206	206	204	203	203	206	208	207	156	197	205	206	206
Percent Change - Year Ago	9.4	4.8	2.1	0.4	-1.5	0.0	1.8	2.0	46.0	26.5	4.1	0.6	-0.2
Per Unit of Output (% of GNP)	5.5	5.5	5.4	5.4	5.3	5.4	5.4	5.3	4.5	5.3	5.4	5.3	5.2
Effective Corporate Tax Rate (%)<2>	29	27	27	27	27	27	27	27	34	32	27	27	29
Federal Tax Receipts (Unified basis)	654	833	758	695	685	933	774	736	613	683	735	782	843
Percent of GNP	17.1	21.6	19.4	17.6	17.1	22.9	18.7	17.5	18.6	18.7	18.9	19.1	19.2
Federal Expenditures (Unified basis)	934	940	954	961	991	1,000	1,007	1,032	803	868	947	1,008	1,070
Percent of GNP	24.5	24.3	24.4	24.3	24.7	24.6	24.4	24.6	24.3	23.7	24.4	24.6	24.3
Surplus or Deficit (Unified basis)	-280	-107	-196	-265	-306	-67	-233	-296	-190	-184	-212	-225	-227
% of GNP	7.3	2.8	5.0	6.7	7.6	1.6	5.6	7.0	5.8	5.0	5.5	5.5	5.2
% of Personal Savings	231.6	76.6	164.9	212.1	240.0	50.9	180.7	231.1	158.1	117.2	171.3	175.7	162.9
% of Net Domestic Savings	92.6	33.5	66.5	89.0	103.0	21.9	76.4	97.2	80.0	56.5	70.4	74.6	71.3

<1> Includes personal contributions for social insurance.
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach, and Janemarie Mulvey.

Table 11

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	85:1	85:2	85:3	85:4	86:1	86:2	86:3	86:4	1983	1984	1985	1986	1987
REAL ESTATE MARKETS													
Total Single-Family Home Sales (thousands)	4,053	4,247	4,372	4,177	4,137	4,114	4,081	4,000	3,750	3,936	4,213	4,083	3,882
(single-family resales and completions)													
Percent Change -- Year Ago	-2.0	4.6	17.5	9.2	2.1	-3.1	-6.7	-4.3	42.4	5.0	7.0	-3.1	-4.9
Existing Single-Family Home Sales (thousands)	2,976	3,110	3,240	3,075	3,056	3,028	2,998	2,917	2,716	2,866	3,100	3,000	2,802
Percent Change - Year Ago	2.1	4.6	17.3	9.3	2.7	-2.6	-7.5	-5.2	36.5	5.5	8.2	-3.2	-6.6
Dollar Volume (billions)	261.8	276.3	287.9	266.9	271.1	273.6	272.6	259.6	224.2	247.1	273.2	289.2	260.4
Existing Home Prices - Median ($1000's)	73.9	75.4	76.0	74.6	76.7	78.4	79.1	77.6	69.8	72.3	75.0	77.9	81.3
Percent Change - Year Ago	3.7	3.7	3.8	3.7	3.7	3.9	4.1	4.0	3.2	3.5	3.7	3.9	4.4
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	642	644	639	633	655	674	685	677	633	665	639	673	720
Percent of Median Family Income	29	29	29	28	28	29	29	28	32	31	29	29	29
Private Housing Starts (thousands)	1,792	1,814	1,809	1,794	1,766	1,745	1,751	1,756	1,703	1,766	1,802	1,755	1,746
Percent Change - Year Ago	-8.0	-2.3	8.8	12.3	-1.4	-3.8	-3.2	-2.1	61.0	3.8	2.0	-2.7	-0.5
Single-Family	1,111	1,173	1,167	1,136	1,114	1,120	1,117	1,116	1,066	1,103	1,147	1,117	1,113
Percent of Total	62.0	64.7	64.5	63.3	63.1	64.2	63.8	63.6	62.6	62.4	63.6	63.7	63.8
Multi-Family	681	641	642	658	652	625	634	640	637	664	656	638	632
Percent of Total	38.0	35.3	35.5	36.7	36.9	35.8	36.2	36.4	37.4	37.6	36.4	36.3	36.2
Mobile Home Shipments	275	278	289	291	292	294	294	293	296	295	283	294	297
New Single-Family Home Sales (thousands)	646	659	630	615	617	612	588	559	627	637	637	594	555
Percent Change - Year Ago	-5.4	4.1	2.7	-0.4	-4.5	-7.0	-6.7	-9.1	49.9	1.5	0.1	-6.8	-6.6
New Home Prices - Median ($1000's)	83.1	83.8	84.7	85.6	86.6	87.6	88.6	89.7	75.5	80.0	84.3	88.1	92.6
Percent Change - Year Ago	6.6	4.1	4.1	6.6	4.2	4.5	4.6	4.7	8.9	6.0	5.4	4.5	5.1
New Home Prices--Mean ($1000's, Quality Adjusted)	96.2	96.4	97.9	98.5	99.2	99.7	101.3	102.1	89.7	93.7	97.3	100.6	104.6
Percent Change - Year Ago	5.7	3.2	2.9	3.5	3.1	3.4	3.5	3.7	2.1	4.5	3.8	3.4	4.0
NAR Affordability Index	88.3	86.0	85.8	87.9	85.9	84.7	85.2	89.3	82.0	86.2	87.0	86.3	89.5
New Mortgage Commitments ($ billions)	183.4	178.2	172.3	169.2	169.5	165.0	158.5	166.6	163.4	193.1	175.6	164.9	185.5
Percent Change - Year Ago	-4.1	-13.7	-3.7	-13.6	-7.6	-7.4	-8.0	-1.5	152.1	18.2	-9.0	-6.2	12.5
Mortgage Debt Outstanding ($ billions)	2,130	2,218	2,301	2,381	2,299	2,244	2,211	2,196	1,755	1,957	2,257	2,238	2,206
Homeowners' Equity ($ billions)<1>	1,465	1,473	1,490	1,511	1,535	1,563	1,593	1,626	1,553	1,503	1,485	1,579	1,700
Housing Inventory (millions)	92.0	92.4	92.8	93.1	93.5	93.9	94.3	94.6	89.6	91.1	92.6	94.1	95.5
Rental Vacancy Rate (%)	6.2	6.1	6.0	5.9	5.9	5.9	5.8	5.8	5.6	5.9	6.0	5.9	5.8
Unsold New Homes (% of sales)	55.4	54.6	56.2	59.4	62.5	62.5	60.6	57.6	42.9	50.7	56.4	60.8	58.1
Office Vacancy Rate (%)<2>	10.7	10.4	10.1	9.9	9.7	9.5	9.4	9.3	11.7	13.9	10.3	9.5	9.1
Industrial Vacancy Rate (%)<2>	4.0	3.9	3.8	3.8	3.7	3.7	3.6	3.6	4.9	4.7	3.9	3.6	3.4
New Commercial Building Construction (% Ch Value)	35.5	12.6	3.3	-0.1	-0.9	-3.1	-4.0	-0.7	-4.2	37.0	24.1	-0.2	2.0
New Industrial Building Construction (% Ch Value)	8.1	11.3	17.0	11.7	11.0	8.7	10.0	14.5	-25.7	11.6	12.7	11.5	14.0
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-7%)	10.8	6.3	4.7	4.9	5.3	4.9	5.3	5.7	11.2	6.9	6.3	5.2	5.2
M1 Velocity (% change)	-3.7	-1.4	-0.2	0.5	0.4	0.8	0.7	1.1	-3.2	3.7	-0.2	0.4	1.9
M2 (% change)(FED Target 6-9%)	12.7	8.3	5.1	5.6	5.9	6.7	6.4	6.2	12.5	7.9	8.7	6.1	6.4
M2 Velocity (% change)	-5.3	-3.3	-0.6	-0.2	-0.2	-0.9	-0.3	0.7	-4.4	2.7	-2.4	-0.5	0.7
Monetary Base (% change)	6.0	4.2	4.4	4.6	4.9	4.6	4.8	5.4	9.5	8.1	5.4	4.7	5.7
Flow of Funds (NIA Basis)													
Sources (total:gross savings)	669	657	663	676	675	694	700	703	479	653	666	693	748
Private													
Personal Savings	121	139	119	125	128	132	129	128	118	156	126	129	138
Savings Rate	4.6	5.1	4.4	4.5	4.5	4.6	4.5	4.4	5.0	6.1	4.7	4.5	4.5
Gross Business Savings	547	554	557	562	569	580	588	596	454	519	555	583	617
Government													
Federal	-165	-198	-182	-188	-197	-199	-202	-208	-179	-176	-183	-201	-205
State and Local	56	54	52	51	49	50	51	53	44	53	53	51	58
Foreign (current account deficit)	109	108	118	125	127	131	133	135	42	102	115	131	141
Uses (total:gross investment)	657	648	656	664	660	670	678	686	472	638	656	674	739
Nonresidential Investment													
Equipment	291	296	300	306	311	317	324	331	223	275	298	321	357
Structures	164	168	169	171	173	174	177	180	130	150	168	176	191
Residential Investment	155	158	166	165	166	167	168	170	132	154	161	168	175
Inventory Investment	47	27	21	22	10	11	9	7	-13	58	29	9	17
Value of the U.S. Dollar (Weighted by Trade) (Base=1967)	1.200	1.149	1.127	1.119	1.099	1.081	1.066	1.052	1.024	1.095	1.149	1.074	1.017
Percent Change	21.5	-15.9	-7.5	-2.7	-7.2	-6.1	-5.4	-5.4	3.7	6.9	4.9	-6.5	-5.4
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	13.3	13.1	12.9	13.0	13.1	13.2	13.3	13.4	13.9	14.2	13.1	13.3	13.6
Real Mortgage Rate (30 yr. avg. is 4.5%)	8.1	10.3	10.4	9.7	9.7	10.0	10.1	9.6	10.2	10.5	9.6	9.8	9.8
1 Year ARM (without buy-down)	11.1	10.6	10.6	10.6	10.8	10.9	10.9	10.9	11.3	12.6	10.7	10.9	11.3
Real Mortgage Rate	5.8	7.8	8.0	7.3	7.4	7.8	7.7	7.0	7.5	9.0	7.2	7.5	7.5
Corporate Bond Rate (AAA)	12.3	12.1	12.0	12.1	12.2	12.3	12.3	12.4	12.0	12.7	12.1	12.3	12.6
Government Bond Rate	11.8	11.6	11.5	11.6	11.7	11.8	11.8	11.9	11.3	12.5	11.6	11.8	12.1
Real Government Bond Rate (30 yr. avg. is 2.1%)	6.5	8.8	9.0	8.3	8.3	8.6	8.6	8.1	7.6	8.9	8.1	8.4	8.3
Federal Funds Rate	8.5	8.2	8.5	8.7	8.8	9.1	9.2	9.3	9.1	10.2	8.5	9.1	9.9
3 Month Treasury Bill Rate	8.2	7.8	7.8	7.9	8.0	8.2	8.3	8.3	8.6	9.5	7.9	8.2	8.8
Real 3 Month T-Bill Rate (30 yr. avg is 1.2%)	2.9	5.0	5.3	4.6	4.6	5.1	5.1	4.5	4.8	5.9	4.4	4.8	5.0
1 Year Treasury Bill Rate	9.4	8.9	8.9	8.9	9.1	9.2	9.2	9.2	9.6	10.9	9.0	9.2	9.6
Real 1 Year T-Bill Rate (30 yr. avg is 1.7%)	4.1	6.1	6.3	5.6	5.7	6.1	6.0	5.3	5.8	7.3	5.5	5.8	5.8
Commercial Paper Rate	8.5	8.2	8.4	8.5	8.6	8.9	9.0	9.1	8.9	10.1	8.4	8.9	9.6
Rate on Money Market Fund Shares	8.6	8.3	8.5	8.7	8.8	9.1	9.2	9.2	9.0	10.3	8.5	9.0	9.8
Prime Rate	10.5	10.4	10.4	10.8	10.9	11.1	11.1	11.1	10.8	12.0	10.5	11.1	11.7

<1> Homeowners Equity has been adjusted to correspond to the Federal Reserve's Flow of Funds data.
<2> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach and Janemarie Mulvey